

**Emily Bulman**  
**Principal Economist**  
Telephone: 020 7282 3892  
Fax: 020 7282 2041  
E-mail: emily.bulman@orr.gsi.gov.uk



26 October 2010

<Name and address  
of track access manager,  
or equivalent, in each  
train operating company>

## **BY E-MAIL**

**Dear Sir/Madam,**

### **Schedule 4 Sustained Planned Disruption: proposed values for defined service group revenue**

1. The purpose of this letter is to set out our proposed values for “defined service group revenue” which is needed to determine whether operators can claim additional compensation for sustained planned disruption (SPD). Please let us know if you have any comments on our proposals.
2. Under Schedule 4 of ORR’s model passenger track access contract, operators are entitled to receive compensation for revenue loss resulting from restrictions of use in return for the payment of an access charge supplement. Operators receive compensation based on a three tiered structure underpinned by compensation formulae.
3. In addition to this, under part 3 of Schedule 4, operators can claim compensation for SPD. To claim for SPD, an operator’s revenue loss compensation must be either:
  - greater than 20% of defined service group revenue over 3 consecutive periods; or
  - greater than 15% of defined service group revenue over 7 consecutive periods.
4. Please note that these thresholds are defined with respect to *the amount of compensation determined under Schedule 4*<sup>1</sup>, rather than an operator’s actual revenue loss.

---

<sup>1</sup> The revenue loss compensation calculation is set out in paragraph 3.4 of schedule 4 of the model track access contract (passenger services). The model contract can be accessed on our website: <http://www.rail-reg.gov.uk/server/show/nav.202>.

5. We have hitherto not specified the term “defined service group revenue”, and do so in this letter.

6. Our aim is that the defined service group revenue is defined on a consistent basis to that of the Schedule 4 formulaic revenue loss compensation; in particular we have sought to use the same assumptions regarding total revenue and journeys for both measures.

7. The Schedule 4 revenue loss compensation calculation<sup>2</sup> is a function of Network Rail payment rates, also referred to as Network Rail Marginal Revenue Effect (MRE), which is specified in column C to Appendix 1 of Schedule 8. For most service groups across the national network, we calculated Schedule 8 values and consulted on these during the 2005 performance regime review. They have been adjusted annually for inflation, but are otherwise unchanged.

8. For consistency, we have determined the defined service group revenue on the basis of the 2004-05 revenue for each service group, as these figures were used to determine the MRE in 2005. In some cases, the definition of service groups has changed in the intervening periods, and we have reallocated service codes to reflect these changes.

9. The defined service group revenue is calculated using the information given in Table 1 of Appendix A. The table lists the proposed SPD ratio for each service group. The defined service group revenue is the product of the SPD ratio and the Network Rail payment rate (“Network Rail MRE”) for the same service group, as defined in Appendix 1 of Schedule 8.

10. Appendix A also shows a more detailed table, Table 2, of how the SPD ratios were derived. This table is included for information only. The columns are set out as follows:

- Column A, the Network Rail payment rate, or MRE for 2004-05;
- Column B, the service group revenue, calculated direct from Lennon data for 2004-05;
- Column C, the SPD ratio, which is the ratio of column B and column A;
- Column D, the current Network Rail MRE, as stated in Appendix 1 of Schedule 8 of your track access contract (we have used 2009-10 prices); and
- Column E, the current defined service group revenue, which is the product of columns C and D.

11. As the Network Rail MRE has not changed in real terms since 2005 for most service groups, the defined service group revenue is in many cases the same as that for

---

<sup>2</sup> See paragraph 3.4 of schedule 4 of the model track access contract (passenger services).

2004/05, adjusted for RPI. We have chosen to set the defined service group revenue to be a function of the SPD ratio, however, because the SPD ratio will not ordinarily change as a result of a bespoke change to Schedule 8, and it is not dependent on RPI.

12. We would appreciate any comments with regards to this letter and the associated tables, no later than Tuesday 16 November 2010.

13. We recognise that as the defined service group revenues have not been specified until now, you may be unable to meet the requirements set out in paragraph 2.10(b) of Schedule 4<sup>3</sup>. We will expect Network Rail to allow some flexibility of this provision to take account for this.

14. If you would like to discuss any of the issues raised in this letter and its Appendix, please do not hesitate to contact me at the details above.

15. I am sending this letter to representatives of all franchised train operating companies but with a bespoke Appendix A which contains confidential information relevant to each company separately.

Yours sincerely,

A handwritten signature in black ink that reads "Emily Bulman". The signature is written in a cursive style with a long, sweeping underline.

Emily Bulman

---

<sup>3</sup> Paragraph 2.10(b) requires that an SPD Notice must be served no later than the day falling 56 days after the issue of the Day 42 statement which followed the end of the relevant SPD Period.

## **Appendix A**

Redacted